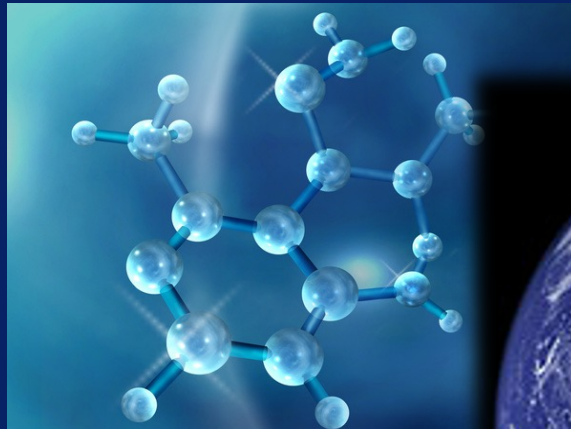


Brainfood for the Plastics Industry

Issue 22.06 – Mar 2022



Market Update

Crude Oil & Natural Gas

WTI crude oil is currently trading around \$96/barrel, down almost 12% from its price two weeks ago. The current price is down 22% from its price just one week ago when it settled at \$123 .70 on March 8th. What's causing the big drop in crude pricing?

Reports by industry analysts will point to the following factors for the recent decline in crude oil pricing:

- Continued attempts at Russia-Ukraine peace talks
- China covid lockdown measures hampering demand
- Optimism around an Iran deal to supply crude oil to the market (Iran currently under sanctions since 2018 that were reinstated under former President Trump)
- More supply coming to market (the USA added 13 oil and natural gas rigs in one week)
- Lower Demand (as gasoline prices hit record highs, consumers alter behavior)

In our opinion, these are attempts at reasoning to try and explain the crude oil price move. Many times, markets move up or down with significant speed simply because of momentum and group think. This is market trading psychology and applies to developed commodities as well. As traders increased speculative length positions over the past couple of months, they were excited about the huge increase in prices to start the month of March but quickly had to determine when to take profit. In our trading experience, sometimes its easier to determine when to get into a trade then to get out of one.

What has been occurring these past two weeks is a classic example of those speculators that were long crude oil taking profit (so they need to sell), while the speculators that were late to the trade are now having to enter stop losses (where they sell in order to stop the loss from getting any bigger). Like a feedback loop, this can continue for weeks and often overshoots the market too much in the other direction. Oil analyst Norbert Rucker of Julius Baer writes, "With the fundamental situation hardly changed, and with tensions and uncertainties around the ware in Ukraine still high, it is puzzling to witness the risk premium evaporate so swiftly."

It is our opinion that the fundamental supply of crude remains extremely tight and consumer behavior has yet to drastically change after a few painful weeks at the pump. At BlueClover we expect WTI pricing to average north of \$100/barrel for the next couple of months. We do believe that crude pricing will slide lower than \$100/barrel in the 2nd half of this year as rising interest rates and continued crude supply increases help to balance the market.

Natural Gas prices are trading around \$4.50/mmbtu in Henry Hub, LA. The market for natural gas has remained between \$4.40 - \$5/mmbtu this past month.

Market Update

Plastics Feedstocks (Naphtha, Ethane, and Propane)

- As a result of the lower crude pricing, all plastic global feedstock prices are lower
- Naphtha prices (CIF Japan) are off about 3% to \$945/mt
- Ethane prices are unchanged at 41.25 cents per gallon (cpg)
- Propane prices are down 10% over the past two weeks to a spot physical price of 131.5cpg in Mont Belvieu, TX.

Ethylene

- Ethylene prices in the Enterprise system in Mont Belvieu, TX are lower by 7cpp from two weeks ago to a spot physical price of 30cpp.

Propylene

- Physical PGP prices in Enterprise's system in Mont Belvieu, TX were trading around 67cpp on Monday March 14. Two weeks ago prices were 72cpp and within that time frame had reached a high of 75cpp on March 9th.
- The month to date calendar average for physical PGP in March is 72.225cpp according to the PetroChem Wire.
- BlueClover is revising its March contract PGP estimate from up 10cpp to up 12cpp, which would bring March contract PGP to 74cpp.
- There remains upside risk in the PGP market. To put some historical numbers in play, physical PGP prices averaged 83cpp over a 3 month period last year (July – Sept 2021). Over that same time period, WTI prices averaged around \$72/barrel and propane prices averaged 117 cpg. Both WTI and propane are higher today. So while the market for PGP was extremely tight last year, if it gets tight again now with higher feedstock pricing, then its reasonable to expect pricing to shoot up over 83cpp for any four-week period and maybe even longer.
- While very difficult to guess, BlueClover is currently estimating a range of 70-72cpp for April physical PGP pricing and a range of 66-70cpp for the 2nd quarter.
- If March physical PGP prices end up averaging around 70cpp, that would bring the 1st quarter 2022 average to 62.5cpp. At the start of the year BlueClover had estimated 55cpp for this 1st quarter average. On Feb 16, BlueClover amended its 1Q 2022 estimate to 60cpp from 55cpp.

Polypropylene

- We can copy and paste the same sentence from two weeks ago: "Polypropylene prices are higher across the board for widespec and prime and all types of polypropylene." We will continue with the widespec HomoPP as a proxy which was trading between 80 and 85cpp in railcar two weeks and is now trading at 90 to 94cpp.

Feedstock “Spot” Prices:

<u>Product</u>	<u>Location</u>	<u>Price as of Mar 15</u>	<u>Price as of Mar 1</u>	<u>Unit</u>
Brent Crude	North Sea, Europe	99.8	109.3	USD/barrel
WTI Crude	Cushing, OK	95.56	107.95	USD/barrel
Natural Gas	Henry Hub, LA	4.51	4.55	USD/MMBtu
Naphtha	C&F Japan	945	978	USD/mt
Ethane	Mont Belvieu, TX	41.125	41.375	Cents/Gal
Propane	Mont Belvieu, TX	131.5	146.75	Cents/Gal
Ethylene (Enterprise system)	Mont Belvieu, TX	30	37.5	Cents/Lb
PG Propylene (Enterprise)	Mont Belvieu, TX	67.25	72	Cents/Lb

* Sources – CME, Bloomberg

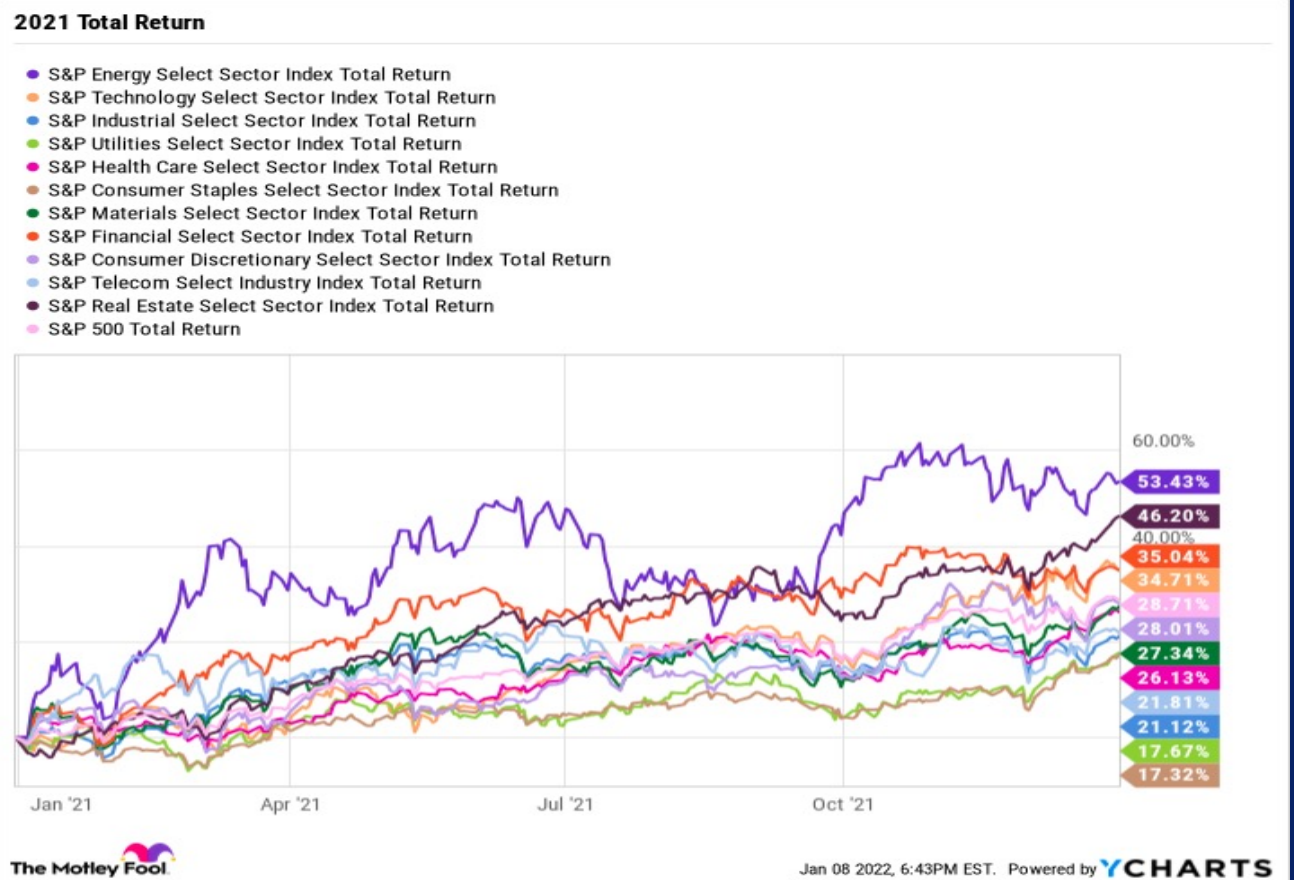
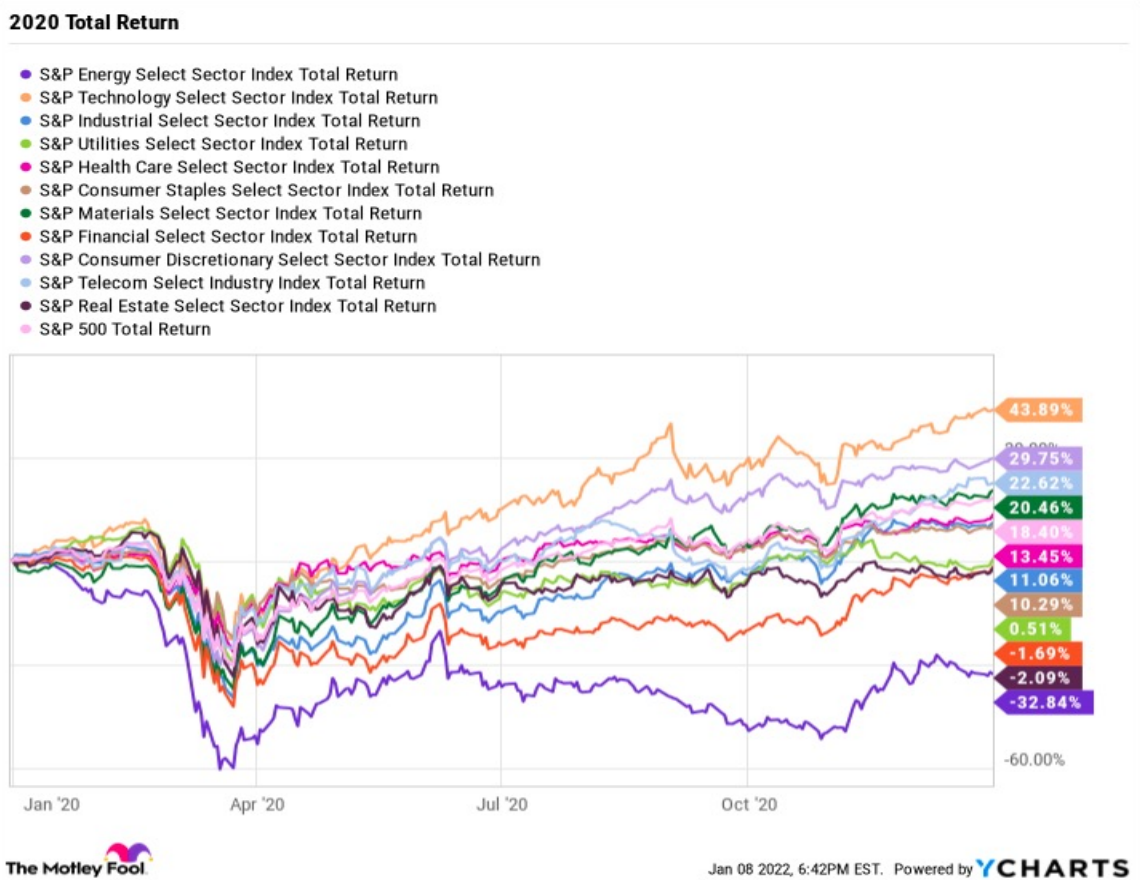
Inventory

HERO PRIME™		
Grade	Description	Location
HP12	12 melt Barefoot HoPP	Midwest

HERO FLEX™		
Grade	Description	Location
HG3040	30-40 melt Grey PCR CopolymerPP	Midwest



Trader Toolbox – Energy Stocks go from Zero to Hero!!



The above charts show the 2020 annual returns (left chart) and the 2021 annual returns (right chart) for the S&P 500 by sector. The two areas of focus are the purple line (the energy sector) and the light pink line (the total S&P 500 index).

As you can in 2020, the energy sector returned negative 33% making it the worst performing sector. That same year the S&P 500 index returned 18%.

In 2021, the energy sector returned positive 54% (the best sector) while the S&P 500 index returned 29%, a difference of 25% in favor of the S&P Energy sector.

Through March 9, 2020 (when crude prices were at their highest) the S&P 500 energy sector was outperforming the standard index by 49%.

Brainfood reports have touched on the reasons: lack of fossil fuel re-investment, record global energy demand, and return of commodity producer profitability



Why BlueClover?

BlueClover is the informed sourcing solution— bridging the gap between upstream knowledge, resin procurement and price risk management.

- ❖ Trusting relationship with a professional distribution company that trades polypropylene across a wide range of qualities at a multitude of price points for both spot and contract business.
- ❖ Full access to our Price Risk Management Team.
 - ❖ Work closely with our price risk management team with decades of commodity trading experience to determine when fixed pricing programs make sense for your business.
 - ❖ Access to BlueClover’s internal research and analysis on pricing and industry economics.

Please visit our website [here](#) for more information.



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